

DATE ISSUED: September 13, 2000

REPORT NO. 00-179

ATTENTION: Honorable Mayor and Members of the City Council
Docket of September 19, 2000

SUBJECT: Authorization to Issue Separate Tax-Exempt Tax Allocation Bonds
(TABs) for the North Bay and North Park Redevelopment Projects

SUMMARY

Issue - Should the City Council approve the issuance of tax-exempt TABs for the North Bay and North Park Redevelopment Project Areas?

Executive Director's Recommendation - That the City Council:

Approve the financing of the North Bay Redevelopment Project by the Redevelopment Agency of the City of San Diego; and

Approve the financing of the North Park Redevelopment Project by the Redevelopment Agency of the City of San Diego.

Fiscal Impact - The North Bay Redevelopment Project Tax Allocation Bonds, Series 2000 will not exceed \$13,000,000 aggregate principal amount. The North Park Redevelopment Project Tax Allocation Bonds, Series 2000 will not exceed \$7,000,000

aggregate principal amount. The bonds are secured by the tax increment revenue generated by their respective redevelopment project area. Both TABs include general redevelopment funds as well as 20 percent Low and Moderate Income Housing monies. An independent fiscal consultant report has been prepared for each bond issue and concludes that sufficient tax increment revenue will be generated on an annual basis to support annual debt service payments.

Environmental Impact - The City of San Diego as Lead Agency under the California Environmental Quality Act (CEQA) has prepared and completed the Final Environmental Impact Report (EIR) for North Bay Revitalization Area (Including the North Bay Redevelopment Project), (SCH No. 97-091022; dated March 1998) and the Final EIR for the North Park Redevelopment Project (SCH No. 93-121105; dated April 1995) covering this current activity. These previously certified EIRs (North Bay - City Council Resolution # R-290053; adopted May 4, 1998 and North Park - City Council Resolution # R-02710; adopted January 28, 1997) were reviewed and considered prior to this current action.

BACKGROUND

The expansion of the regional economy coupled with rising real estate values have raised tax increment revenues both within the North Bay and North Park Redevelopment Projects to a level that affords the Agency the ability to issue bonds to finance projects. With the issuance of the bonds, the Agency has an opportunity to further implement the redevelopment plans adopted for North Bay and North Park.

Agency staff and City departments including Financing Services, City Auditor and Comptroller, City Attorney and City Treasurer have been working in a team approach with outside consultants to prepare and structure the bond financing documents. Both Project Area Committees (PACs) have been consulted and have recommended moving forward with the issuance of bonds. On August 2, 2000, the North Bay PAC unanimously recommended that the Agency issue bonds for the North Bay Project. On July 11, 2000, the North Park PAC recommended that the Agency issue bonds for the North Park Project.

The bond issues are separate and distinct, but will be offered in a single official statement. The bonds are being issued simultaneously for several reasons. First, there are significant cost savings in jointly preparing the documents and developing the financing program. Second, the current interest rate environment for bonds is attractive and both Project Areas can take advantage of this environment. Third, combining the two separate issues into a single offering increases the issuance size and makes it more attractive to investors.

DISCUSSION

Bond Structure - North Bay and North Park

The bonds have an identical structure. They are tax-exempt, with a fixed interest rate, and have a 30 year amortization schedule. The bonds will be sold on a competitive basis. The bonds are secured by the tax increment revenue generated by their respective redevelopment project area. The proceeds as well as the debt service payments resulting from the sale of the bonds will accrue to each separate project area and will not be combined.

The bonds have been structured to allow the passthrough payments to the affected taxing entities to be subordinate to the annual debt service payment. However, the bonds have been sized to exclude the passthrough payment contribution and it is not anticipated that the subordinated passthrough payments will be used to support the annual debt service payments. According to Section 33607.5 of the California Community Redevelopment Law, the affected taxing entities have been notified of the subordination, but none have challenged the Agency's tax increment projections and have until September 11, 2000 to do so. Agency staff will report at the Agency/Council meeting of any challenge to the request.

To maintain the tax-exempt status of the bonds, the proceeds will have to be expended on public benefit projects and follow Federal Internal Revenue Service (IRS) regulations. As projects come forward for Agency approval, bond counsel will first be consulted to insure that the proceeds are spent consistent with IRS laws. Furthermore, to avoid yield restrictions on investment proceeds, there has to exist a reasonable expectation that the funds will be spent within three years.

North Bay Project

The net proceeds from the North Bay Redevelopment Project Tax Allocation Bonds, are estimated at:

General Redevelopment Projects	\$8,619,000
Low/Moderate Income Housing	<u>\$2,790,000</u>
Total Net Proceeds	\$11,409,000

The North Bay bonds are being sold to finance certain general improvements as well as low and moderate income housing projects in the North Bay Project Area. The North Bay redevelopment improvements generally consist of public infrastructure improvements, publicly-owned facility improvements, land acquisition, relocation, development planning/solicitation and community outreach/marketing. North Bay housing improvements generally consist of expansion and new development of low and moderate income housing projects, development planning/solicitation and community outreach/marketing as it relates to housing improvements.

The Agency is not requested at this meeting to approve the expenditure of the bond proceeds for the North Bay Project Area. Specific projects and redevelopment activities will be brought back

to the Agency after the issuance of the bonds and the actual amount of proceeds is known.

The North Bay Redevelopment Project Report to City Council, approved in May 1998, identifies significant investment needs and redevelopment opportunities. A sampling of redevelopment and housing improvements which are currently being contemplated for funding using the bonds proceeds has been prepared. This list is presented in Attachment 1. This list represents a sample of projects within the redevelopment area. In addition to projects currently being contemplated, other unanticipated projects and investment opportunities may come forward or be pursued. As of the date of this report, none of the projects currently contemplated have been formally analyzed by bond counsel to ascertain their compliance with IRS laws.

The list has been presented to the North Bay PAC, but not endorsed or approved by them. Of the projects listed, only the cooperation agreement between the Agency and the Metropolitan Transit Development Board (MTDB) relating to the Linda Vista Trolley Station mixed use project has received previous approval by the Agency.

North Park Project

The net proceeds from the North Park Redevelopment Project Tax Allocation Bonds, are estimated at:

General Redevelopment Projects	\$4,622,000
Low/Moderate Income Housing	<u>\$1,501,000</u>
Total Net Proceeds	\$6,123,000

The North Park bonds are being sold to finance certain general improvements as well as low and moderate income housing projects in the North Park Project Area. The North Park redevelopment improvements generally consist of public infrastructure improvements, publically-owned facility improvements, land acquisition, relocation, development planning/solicitation and community outreach/marketing. North Park housing improvements generally consists of the expansion and new development of low and moderate income housing, and housing rehabilitation projects, development planning/solicitation and community outreach/marketing as it relates to housing improvements in the North Park Project Area.

The Agency is not requested at this meeting to approve the expenditure of the bond proceeds for the North Park Project Area. Specific projects and redevelopment activities will be brought back to the Agency after the issuance of the bonds and the actual amount of proceeds is known.

The North Park Redevelopment Project Report to City Council, approved in March 1997, identifies significant investment needs and redevelopment opportunities. A sampling of redevelopment and housing improvements which are currently being contemplated for funding using the bonds proceeds has been prepared. This list is presented in Attachment 2. This list represents a sample of projects within the redevelopment area. In addition to projects currently being contemplated, other unanticipated projects and investment opportunities may come forward or be pursued. As of the date of this report, none of the projects currently contemplated have been formally analyzed by bond counsel to ascertain their compliance with IRS laws.

The list has been presented to the North Park Project Area Committee (PAC), and approved by them. Of the projects listed, only the North Park Theatre project has an Agency approved Negotiation Agreement with a local developer to develop the theatre.

Issuance Schedule

Upon authorization to issue the bonds, staff will proceed with completing the bond issuance process. Listed below are the key bond issuance dates and activities.

Date	Activity
September 21, 2000	Mail Preliminary Official Statement
October 5, 2000	Sale of Bonds
Week of October 9, 2000	Mail Final Official Statement
October 18, 2000	Closing/Receipt of Proceeds

ALTERNATIVE

Do not approve the issuance of bonds for North Bay or North Park or both.

Respectfully submitted,

Hank Cunningham
Economic Development and
Community Services Director

Approved: George Loveland
Assistant City Manager

HOOKS/JRD

ATTACHMENTS:

1. North Bay Redevelopment Project Area Draft Conceptual Redevelopment and Housing Improvements List
2. North Park Redevelopment Project Area Draft Conceptual Redevelopment and Housing Improvements List

Note: Attachments not available in electronic format. Copies are available for review in the Office of the City Clerk.